

From the Associated Press

Health costs zoom to decade-high rates Drugs, hospital stays spur 2001 spending of \$1.4 trillion

Wednesday, January 8, 2003 Posted: 10:06 AM EST (1506 GMT)
WASHINGTON (AP) –

Prescription drugs and hospital stays are the main drivers of growing U.S. health care spending that rose a decade-high 8.7 percent in 2001.

The nation's health care budget jumped to \$1.424 trillion, up from \$1.310 trillion in 2000, according to the report by the Centers for Medicare and Medicaid. Prescription drugs and hospitals were two of the fastest growing expenditures.

The annual report examining private and public sector spending, appears in the January/February issue of the journal Health Affairs.

The report's authors said the nation was feeling the effects of the recession, which followed months of growth and record employment where many companies offered lucrative benefit packages to lure workers.

"Government and employers are feeling enormous pressure on their ability to finance rapidly rising spending with resources that are growing more slowly," said Katharine Levit, one of the authors.

The study found that health care is increasingly becoming a force in the nation's economy, jumping from 13.3 percent of the gross domestic product in 2000 to 14.1 percent in 2001 -- the largest increase since 1991.

The numbers mean health care spending averaged about \$5,035 per person.

Prescription drug spending -- which made up \$140.6 billion of total health spending -- continued to grow faster than all other areas. However, the study's authors said the 15.7 percent growth rate in 2001 was down slightly from the previous year's 16.4 percent rate -- partly because of a slowdown in the introduction of new drugs.

Insurance premiums jump

One of the biggest increases was in hospital spending, which increased 8.3 percent -- the fastest growth for that sector in a decade. Economists pointed to huge hospital consolidations which have given facilities more bargaining power with managed care plans for payments as the reason for the jump in hospital services.

Critics said the spending increases are proof that once-touted HMOs are losing their ability to control costs. Health insurance premiums grew 10.5 percent, while benefits grew slower, about 10.1 percent, the report said.

Democrats, in particular, pointed to Republican proposals to let private insurers administer a prescription drug benefit for Medicare. Congress is expected to debate those proposals this year.

"Given these results, I cannot understand why Republicans continue to devise plans for turning Medicare over to private insurers and HMOs," said Rep. Pete Stark, D-California. Stark said the study showed that Medicare had again "outperformed private health insurers."

But Karen Ignani president of the American Association of Health Plans blamed lawmakers for the increases, pointing to scores of state and federal mandates for benefits like dental care.

"Managed care worked very, very well to drive down costs in the beginning," she said. "Politicians took away managed care tools. They devalued managed care in their political debates. If Congress wants to look for an explanation of why this is happening, they only need to look in the mirror."

Public health programs were also hit by increases. Spending for Medicaid, the nation's health insurance program for the poor, grew 10.8 percent -- its fastest growth since 1993, according to the report. Economists cited an 8.5 percent rise in enrollment due to the recession and expanded state programs for the uninsured as some of the causes.

Medicare spending grew 7.8 percent, partly because Congress increased payments to Medicare providers.